Office-Supreme Court, U.S.
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83-391

No.

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1983

CALIFORNIA GLAZED PRODUCTS, INC.,
a California corporation,
Petitioner,

vs.

THE BURNS AND RUSSELL COMPANY OF BALTIMORE CITY,
a Maryland corporation,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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QUESTIONS PRESENTED FOR REVIEW

In this case the jury implicitly found that respondent's trademark was something different from the compound, sand, coloring and fire retardant which respondent sold to petitioner, so that the trademark could be said to be a tying product and the compound, sand, coloring, and fire retardants could be said to be tied products in an unlawful tying arrangement. The Court of Appeals ordered j.n.o.v. on this issue. Was the jury's implied finding of "separate products" supported by substantial evidence?

In the trial court petitioner offered evidence that in addition to the trademark, respondent's patent was also used as a tying product to which sale of the compound, sand, coloring, and fire retardant was tied. The patent was plainly a separate product from the tied products. The trial judge held as a matter of law that the patent could not possibly be a tying product in this case and so instructed the jury. The Court of Appeals affirmed this ruling. Such affirmance was necessary to the Court of Appeals' basic holding that there were no separate tying and tied products in this case. Is there substantial evidence in the record from which the jury could reasonably have concluded, if permitted to do so, that respondent used its patent as a tying device for the sale of compound, sand, coloring and fire retardant to petitioner and the other licensees?

Petitioner California Glazed Products, Inc., ("Cal Glaze") respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States

Court of Appeals for the Ninth Circuit entered in this case on June 22, 1983. That judgment and opinion vacated petitioner's antitrust damage verdict of $51,787.27 (tripled to $155,361.81) and directed the District Court to enter judgment for respondent notwithstanding the verdict. The case was tried in the United States District Court for the Northern District of California.

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OPINION BELOW

The opinion of the Court of Appeals is reported at ..... F.2d ....., 1983-1 Trade Cases ¶ 65,467. A copy is attached hereto as Appendix A. A copy of the ensuing judgment of the District Court is attached as Appendix B. There is no reported decision in the District Court.

JURISDICTION

The Court of Appeals opinion directing judgment for respondent was filed on June 22, 1983. There was no Petition for Rehearing in the Court of Appeals. The District Court entered judgment for respondent on July 21, 1983.

The present Petition for Certiorari is filed within 90 days of the order and opinion of the Court of Appeals. This Court has jurisdiction to review the order of the Court of Appeals and the resulting judgment of the District Court under 28 U.S.C. Section 1254(1).

STATUTES AND RULES INVOLVED

Petitioner alleged a violation of Section 1 of the Sherman Act, 15 U.S.C. Section 1, and recovered a judgment under Section 4 of the Clayton Act, 15 U.S.C. Section 15. Jury trial under Rule 38 of the Federal Rules of Civil Procedure had been duly demanded. The Court of Appeals ordered judgment n.o.v. for respondent under Rule 50 of the Federal Rules of Civil Procedure. The present petition does not call for the interpretation of these provisions. Rather, the issue here is whether the Court of Appeals' disregard of the substantial evidence rule and the right to jury trial was so flagrant that this Court should exercise its power of supervision to restore to petitioner a verdict and judgment which petitioner honestly and fairly won.

STATEMENT OF THE CASE

In 1957 Grant H. Rogers formed Cal Glaze to go into business in San Jose, California as a Burns & Russell licensee (RT 81-82; Exs 1, 2, 5). A glazed block is a concrete block with a smooth glazed finish baked onto one side of it (Ex DJ). It is a building material which is not dissimilar from tile in its properties. Cal Glaze's business was to make and sell glazed blocks under Burns & Russell's trademark, Spectra Glaze (RT 81; 970). At the outset of the relationship Cal Glaze on the same day, March 7, 1958, entered into three agreements with Burns & Russell (RT 1072; Exs 1-5; RT 296-300). The first was a patent license

which enabled Cal Glaze to manufacture glazing material and apply it to concrete blocks, all in the manner and by the methods set forth in Burns & Russell's United States patents (Ex 2; RT 46). The second agreement was a trademark license which entitled Cal Glaze to sell the glazed blocks as Spectra-Glaze blocks, Spectra-Glaze being Burns & Russell's registered trademark (Ex 1). Under the third agreement Cal Glaze was required to contribute to a fund used to advertise Spectra-Glaze blocks in building trade publications such as Sweets Catalogue (Ex 5; RT 104; RT 96-113; 296-298; 1072).

Burns & Russell's compensation for the patent license was measured at 2% of Cal Glaze's gross sales of Spectra-Glaze blocks (Ex 2, p. 5). There was no royalty under the trademark license. However, paragraph 8 of the trademark license explicitly required Cal Glaze to purchase from Burns & Russell all of the ingredients needed to make the coating or glazing material which was applied to the concrete block to produce a Spectra-Glaze block (Ex 1, ¶ 8; RT 553; 555-6; 581-2; 602-3; 631). There were some seven such ingredients, but the ones as to which overcharge damages were proved were four: a polyester resin or compound ("the compound"); treated sand; pigments or coloring material; fire retardants. Burns & Russell did not itself manufacture any of these ingredients, but contracted with outside manufacturers who shipped the ingredients directly to Cal Glaze (RT 897-898) and other licensees. Burns & Russell made a substantial gross profit on these slurry ingredients. For example, between April 1, 1976, which is four years before the complaint in this case was filed, and June 1, 1979, when Cal Glaze closed its doors, Cal Glaze bought $168,828.82 worth of the compound from

Burns & Russell. Burns & Russell paid U.S. Steel Chemical Division $78,079.84 for the same material, and therefore made a gross profit of $90,748.98 on those sales (Ex DP, p. 2). Until shortly before trial petitioner Cal Glaze did not know what profit Burns & Russell made on the tied ingredients (RT 1103-4). It is by these gross profits that Burns & Russell compensated itself under the trademark license (RT 1103).

At the high water mark there were some 15 other Burns & Russell licensees around the country in addition to Cal Glaze. All of them had the same arrangements with Burns & Russell as did Cal Glaze. About 90% of Burns & Russell's revenues in the pertinent time period was from sale of slurry ingredients to the licensees (RT 621-622; Ex's DP, DQ, DR, DS). In the four years preceding the filing of the complaint, respondent's sales of the tied products to all licensees were $7,835,552.56 (Ex DP, p. 2, col. E).

After years of adhering to Burns & Russell's program, a disgruntled licensee named Alan Kingston bought all of his slurry ingredients on the open market (RT 339) and sold the resulting product as Spectra-Glaze blocks. Burns & Russell itself could not distinguish the Kingston block from a glazed block made with materials sold by Burns & Russell (RT 326-327). Kingston of course paid much less for the slurry materials which he bought on the open market than he had been paying Burns & Russell (RT 343-350). The point of this evidence was that Burns & Russell could easily have specified to the licensees the ingredients required for the glazing material, without making them buy that material from Burns & Russell (RT 296-350). The licensees could then have bought the materials in competitive markets, from sellers approved by Burns & Russell. Also,

there is no reason why the licensees could not buy directly from Burns & Russell's manufacturers, without the surcharge, but this was strictly prohibited. Cal Glaze was threatened with cancellation when it once bought an incidental slurry ingredient from an outside source (Ex 7; RT 139; 208).

The jury in petitioner's suit under 15 U.S.C. section 15 found that in the four years preceding the filing of the complaint, Cal Glaze had been overcharged in the amount of $51,787.27 for slurry ingredients tied to the trademark. At trial Cal Glaze contended that the patent as well as the trademark was a tying device. At first Judge Stanley Weigel agreed with this (RT 641-644; 1196-1197), and then changed his mind and held the patent could not possibly be a tying device in this case. This was clear, palpable error. The case was submitted to the jury then with the trademark as the only tying product.

Burns & Russell argued to the jury that the trademark and the tied products were not separate products, that the trademark represented product origin not merely product quality, and that consumer demand for Spectra-Glaze blocks could be satisfied only if the coating materials for the blocks were purchased from Burns & Russell. On the contrary Cal Glaze contended that the trademark represented only the quality of the glazed block, not the origin of the block's ingredients, and offered evidence that Kingston's glazed blocks were identical to blocks made with material purchased from respondent Burns & Russell, the inference being that it is enough for purposes of consumer preference if the licensees produced a block which for purposes of performance and appearance is indistinguishable

from one made with materials purchased from respondent. The jury was instructed on this issue in a special instruction drafted by Judge Weigel (RT 1372), and returned a general verdict for plaintiff Cal Glaze.

On appeal Judge Wisdom reversed and held that as a matter of law there can be no separate products in this case (Appendix A). Before doing so he gave lip service to the standard for judging a motion for j. n. o. v. He then proceeded to recount all of Burns & Russell's evidence on this issue of separate products, entirely omitting any reference at all to the evidence submitted by Cal Glaze on that issue. Cal Glaze's evidence on the separate products issue had been clearly set forth under a separate heading at pages 14 to 21 of Cal Glaze's brief but none of it found its way into the Court's opinion. As more fully appears below, that evidence is more than sufficient to support the jury's implied finding in Cal Glaze's favor on the separate products issue. It is very clear that Judge Wisdom impermissibly substituted his view of the evidence for that of the jury, thereby denying Cal Glaze its right to jury trial.

Similarly, Judge Wisdom and the concurring judges affirmed Judge Weigel's determination that the patent could not have been a tying product in this case. Judge Weigel's ruling on this issue was expressly challenged in Cal Glaze's brief at pp. 14-17. Again, the Court of Appeals in its opinion omits any reference to the evidence from which the jury could have found that the patent license was used as a tying device in this case. The Court of Appeals could not have decided the separate products issue in respondent's favor without affirming Judge Weigel's ruling that the patent could not possibly have been a tying device.

REASONS FOR GRANTING THE WRIT

1. The Case was Wrongly Decided in the Court of Appeals. There is Substantial Evidence Supporting the Jury's Implied Finding in Favor of Cal Glaze on the Separate Products Issue; the Jury was Correctly Instructed on the Separate Products Issue

The jury's implied finding of separate products was based on substantial evidence. For example, the Burns and Russell brochure received in evidence as Ex DJ states at page 2: "Since Burns and Russell itself is not a manufacturer, meeting the pre-faced concrete masonry unit specifications shown in this catalogue is not the responsibility of Burns and Russell." This product liability disclaimer is inconsistent with defendant's assertion that the Spectra-Glaze trademark is inseparable from the products which go into the slurry. The jury had evidence that the Spectra-Glaze block could be *duplicated* by the use of generic chemicals disclosed in the patent (RT 709-710; *Cf.* 1114-1117). The jury had evidence that the tied ingredients were common generic chemicals disclosed in the patent (RT 1107-1112; Ex 29; *Cf.* RT 306-307; 343-369), and that defendant's alleged trade secrets consisted in the proportions at which those generic chemicals were mixed (RT 360; 364; 372; 390; 400-401; 718-720). The principal generic ingredients of the compound were bentone, triethyl phosphate (TEP), methyl methacrylate (MMA), isophthalic acid (ISO), maleic anhydride (MA), and neopentyl glycol (NPG) (Ex 29; RT 343; RT 1111). Certainly these chemicals are not associated with the Burns and Russell trademark or with any other trademark (RT 302, 305). The jury had evidence that a glazed block meeting all the requirements of ASTM-744,

which is the national performance and appearance standard which Burns and Russell adopted for its blocks (RT 311-313; Ex 30), could be produced from commonly available chemicals (RT 310-333; 709-714, 722; 1107-1114), none of which was purchased from Burns and Russell or from its suppliers (RT 343, 346-8). The trademark covers all coating materials (Excerpts, tab 2, Ex A; Ex DI), and those coating materials include filler and coloring materials, i.e. sand and pigments. Certainly sand, even treated sand, and color pigments are not closely associated with any particular trademark. There was ample testimony that the tied products could easily be specified to outside manufacturers (RT 721-722; 670-671), without necessitating disclosure to the Burns and Russell licensees of any alleged secret formulations (RT 702-704; *Cf.* 705-706; 681). The jury could find that the trademark was a sign of product quality, not a sign of product origin (Ex DJ, p. 2—product liability disclaimer). There was ample evidence in the record from which the jury could and did find that the trademark was a separate product from the tied products.

Also, the jury was correctly instructed on the separate products issue. Judge Weigel specially prepared (RT 1227) and gave the following instruction on the subject (RT 1372):

> "Generally, a trademark can be a tying product, for a trademark simply reflects the goodwill and quality standards of the enterprise or product which it identifies. As such, the trademark is usually distinct from the multitude of separate articles used in the production of the end product; so it is irrelevant, then, that the allegedly tied products here were essential to the production of that which was the subject of the trademark. However, a trademark is not always a distinct

product. Where, for example, the trademark, in the minds of the public, is used to designate the product origin and identity of the product, the trademark may not be a distinct item. For example, on ice cream, the Baskin-Robbins trademark is used to identify and specify the origin of the end product—Baskin-Robbins' ice cream. In that case, the tied product—the ice cream—is associated in the public's mind with the trademark. To determine whether defendant's trademark and the allegedly tied products are distinct products, you should ask whether the allegedly tied products are associated in the public's mind with the defendant's trademark. If the answer is yes, then the trademark and the tied products are a single product." (RT 1372)

The jury found on substantial evidence that the answer was no.

In general, on the subject of instructions respondent had little ground for complaint. Of the petitioner-plaintiff's proposed 13 instructions (CR 61.5, filed 10/5/81), the Court gave only numbers 2, 5, and 7 (RT 1227), and these bore on relatively uncontested issues in the case (elements of tying violation (2); definition of not insubstantial commerce in tied product (5); tying not justified on ground of quality control if less restrictive means available (7)). On the other hand, the Court gave respondent's proposed instructions 4, 7, 8, 9, 14, 15, 16, 21, 22, 23, 24, 25A, 26A, 27, 30, 31, 32, 34, 36, 41, 42, 46, 47, 54, 56, 57, 58, 59, and 60 (RT 1224-1231). The Court gave two instructions of its own, one on separate products, quoted above, and one on specification and trade secrets, based on respondent's 8. On the whole respondent should not be heard to complain of any unfairness in the giving of instructions in this case.

2. There is Substantial Evidence in the Record from Which the Jury Could Have Found, if Permitted to Do So, that the Patent License was a Tying Device in this Case

The complaint in this case from the outset alleged that the tying products were the patent license and the trademark license, and that the tied products were the compound, the sand, the pigments, and the fire retardant (CR 1, pp. 3-4).

Throughout the trial the evidence of several witnesses was that the patent license and the trademark license were always licensed as a package (RT 1072-1073); that no Burns and Russell licensee had ever taken one without the other (RT 96-103); that the licensees were given to understand that the patent and trademark agreements were not licensed separately (RT 296-300). The only Burns and Russell licensee who ever had one without the other was Kingston (RT 1072-1073), when beginning in 1979 he gave up the trademark license but continued under the patent license (RT 338), but this was the result of settlement of Kingston's antitrust case against defendant and defendant's trademark infringement action against Kingston (RT 1072-1073); it was the result of unusual circumstances and not normal business practices.

Late in the evidence Judge Weigel was not convinced of respondent's position that as a matter of law the patent could not be regarded as a tying device (RT 641-644 RT 1192-1206). The Court expressed its view that there was ample evidence in the record that respondent simply did not license the patent without the trademark (RT 641-644; RT 1196-1197). Without any evidence that any licensee

except Kingston had ever had the patent without the trademark, respondent asserted in the trial court that since the patent license was for the term of respondent's patents, whereas the trademark license was for a term of 20 years and was cancellable on 60 days written notice, one could cancel the trademark license and continue to operate under the patent license (RT 1192-1194). Therefore, the patent license was separable from the trademark license (Ibid). Therefore, the patent license could not be a tying product in this case (Ibid). Regardless of what the written license agreements may provide as to term or duration, the fact is that respondent never permitted any licensee, except Kingston, to operate under the patent but not the trademark (RT 96-103; 296-300; 1072-1073; Ex's 1-5). Respondent may argue that the law of contract would compel respondent to permit a patent and trademark licensee to cancel the trademark license and continue to operate under the patent license (RT 1094), but plaintiff argues that as a matter of fact it never happened, whereas the agreements were always presented and licensed as a package (Ex's 1-5).

Also, there is evidence that the patent license is useless without the slurry formulation sheet (RT 1200; 301), and that the formulation sheet was furnished only in terms of trade name materials ("Spectra-Glaze 615 C Compound; S-G Sand; S-G Color-Pac") not generic chemicals (RT 301; 305-306); the formulation sheet (attached to Pl's Ex 9) was delivered to licensees pursuant to and consistently with the trademark license (Ex 9; RT 135-138), not the patent license. Petitioner argued in the trial court that given the fact that 90% of respondent's revenues were derived from the sale of the tied ingredients to its licen-

sees (RT 621-622; Ex's DP, DQ, DR, DS), respondent would have found a way to cancel the patent license of any licensee who wished to practice the patent and buy his own ingredients. Despite the manifestly factual nature of the controversy, and despite Judge Weigel's earlier misgivings on the subject (RT 641-644; 1192-1206), Judge Weigel instructed the jury that the patent and trademark licenses were severable and that as a matter of law the patent could not be considered a tying product in this case (RT 1369-1371), thereby sparing respondent from any misuse defense in a suit against any of its licensees to collect royalties. This was palpable error, objected to by petitioner-plaintiff (RT 1396 ll 1-11; 1399; 1403). There was ample evidence in the record from which the jury could find as a matter of fact that the patent license was a tying product, perhaps the only tying product. For example, Judge Weigel stated at RT 644 to respondent:

> "I get the thrust of your argument, but I think the answer to your most recent statement of your position is that it seems to me there is sufficient evidence in the record to suggest that there was a requirement that both agreements be signed by the licensee.
>
> "So that your idea that it was open to the licensee to cancel the trademark agreement and proceed under the patent agreement is at variance with some of the testimony and record before the court in this case. "Therefore, I believe when all is said and done, I will deny your motion [for directed verdict]; but I will consider it further." (RT 644).

On appeal Judge Wisdom went along with the proposition that as a matter of law the patent license could not be a tying device in the case at bar. (Opinion, fn 11: "These facts support the district court's determination that the trademark, and not the patent, was the only possible tying product in this case.")

3. Both the Trial Court and the Court of Appeals Have So Far Departed from the Usual Course of Judicial Proceedings that the Exercise of this Court's Power of Supervision is Warranted

What Judge Wisdom and the concurring judges have done here is not merely to substitute their view of the facts for that of the jury, but they have suppressed and nullified a perfectly legal and valid jury verdict for plaintiff-petitioner and ordered judgment for defendant-respondent. Petitioner's owner, Rogers, as much as any other litigant, has a right to expect that should he resort to the courts, the judges thereof will apply the law and procedures even-handedly. On the contrary, both Judge Weigel and the Court of Appeals took pains to assure that things did not go too harshly for respondent, and when it was necessary to do so they ran roughshod over petitioner's right to a jury trial. Only this Court can set matters right. The right to jury trial should have more weight than either of the lower courts have accorded to it. 9 Wright & Miller, *Federal Practice and Procedure*, ¶2524.

The petition for certiorari should be granted, and the Court of Appeals' order directing judgment for respondent should be summarily reversed, and the case remanded to the Court of Appeals for consideration of the other issues raised on the appeal. Alternatively, the writ should be granted and the case set for briefing and argument.

Respectfully submitted,

LAWRENCE ALIOTO
Attorney for Petitioner

(Appendices follow)

Appendix A

In the United States Court of Appeals
For the Ninth Circuit

No. 82-4129, No. 82-4135
D. C. No. 80-1130

California Glazed Products, Inc.,
a California corporation
Plaintiff-Appellant/Cross Appellee,

vs.

The Burns and Russell Company of
Baltimore City, a Maryland corporation,
Defendant-Appellee/Cross Appellant.

Filed June 22, 1983

OPINION

Appeal from the United States District Court
for the Northern District of California
Stanley A. Weigel, District Judge Presiding

Argued and Submitted April 12, 1983

Before WISDOM*, Senior Circuit Judge, and SKOPIL and FERGUSON, Circuit Judges.

WISDOM, Senior Circuit Judge:

This appeal presents the issue whether a trademark licensing agreement requiring California Glazed Products Co. ("CGP") to purchase from the Burns & Russell Com-

*Honorable John Minor Wisdom, Senior United States Circuit Judge for the Fifth Circuit, sitting by designation.

pany ("B&R") all the ingredients needed to make finished masonry blocks constitutes an unlawful tying arrangement in violation of Section 1 of the Sherman Antitrust Act, 15 U.S.C. § 1 (1976).[1] The jury found that an unlawful tying arrangement existed and awarded damages to CGP for losses stemming from the tying arrangement. Because we conclude that no tying arrangement exists in this case. we reverse.

I.

B&R is a small Baltimore company which makes glazed masonry blocks. One of its employees, John Sergovic, a polymer chemist, with others, invented a patented process for baking a tinted, glazed face on a masonry block and developed the secret compounds used in that process. B&R owns three registered trademarks: (1) "Spectra-Glaze," which identifies the secret compound used in making glazed masonry blocks; (2) "Spectra-Glaze," which identifies the finished masonry block; and (3) "S-G Sand," which is the filler used in making the "Spectra-Glaze" facing. B&R also owns U.S. Letters Patent Nos. 3,328,231 and 4,031,289, which explain how to glaze a masonry block with a smooth, stain-resistant facing and how to make the finished product.

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[1]Section 1 of the Sherman Act provides in pertinent part, "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal." 15 U.S.C. § 1 (1976). For decisions holding tying arrangements illegal under § 1 of the Sherman Act, see United States v. Loew's, Inc. 371 U. S. 38, 52, 83 S. Ct. 97, . . . , 9 L.Ed.2d 11, 22 (1962); Northern Pacific Ry. v. United States, 356 U. S. 1, 6, 78 S. Ct. 514, 518-19, 2 L. Ed. 2d 545, 550-51 (1958).

The main ingredients used to make the facing of a Spectra-Glaze block[2] are Spectra-Glaze Compound,[3] S-G Sand,[4] S-G Colors,[5] and fire retardant. These materials have been improved, tested, and refined over a period of years to develop a facing for masonry blocks that is resist-

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[2]The Spectra-Glaze block is a concrete block onto which a glazed finish has been baked. This process is explained in the Joint Pretrial Statement:

> 11. The type of coated, glazed masonry unit referred to in the defendant's patents is manufactured by applying a slurry to a concrete block and passing the block through an oven, which causes the coating to solidify. In formulating the slurry and determining the manufacturing process, the object is to obtain an end product in which there is bonded to the block an attractive, smooth surface, tinted to a desired color, which is easy to clean, withstands various staining agents, chemicals and temperature changes, and meets various other specifications including limits on smoke generation and flame spread. The manufacturing process involved is inflexible and unforgiving, and the ingredients employed in the slurry are critical if a proper end product is to be achieved.

[3]Spectra-Glaze Compound is made for B&R by U.S.S. Chemicals. U.S.S. Chemicals prepares a polyester resin and combines it with secret ingredients supplied by B&R to make the compound. B&R has provided U.S.S. Chemicals with the procedures and formulations needed to make Spectra-Glaze Compound. This product is valuable, and the process to make it is a trade secret.

[4]S-G Sand is a specially treated sand used to prevent Spectra-Glaze block from staining. It is a white, spherical sand found only in certain mines in Illinois. B&R developed a special reagent to make the sand, and this reagent is B&R's trade secret. The Faskure Division of Aurora Metal Company produces S-G Sand for B&R pursuant to a written secrecy agreement.

[5]Mixing these colors to achieve uniformity is extremely difficult because the color of each ingredient affects the color of the finished facing. Pigment Dispersion, Inc. ("PDI") makes these colors for B&R, but B&R is an active participant in the process and ensures that all coloring meets its standards. B&R owns the color formulas, and PDI will not sell these colors to anyone else.

ant to staining, cracking, and discoloration. These blocks are available in 48 standard colors, come in a number of different scores, designs, and textures, and can be used to construct interior or exterior walls.

On March 7, 1958, CGP signed two agreements with B&R allowing it to manufacture and sell the Spectra-Glaze line of masonry blocks. The first, a patent license agreement, allowed CGP to use any patent owned by B&R for a two percent royalty. The term of the patent license agreement was for the life of the patents, and it did not require CGP to do or buy anything. The second agreement, the trademark license, authorized CGP to sell glazed blocks under the trademark Spectra-Glaze, but only if the blocks were glazed with Spectra-Glaze Compound. Under the trademark license, CGP agreed to purchase all its requirements needed to make the Spectra-Glaze facing from B&R. The term of the trademark agreement was 20 years, and after the first year, CGP could terminate it on 60 days' notice.[6]

Under these agreements, B&R furnished CGP formulas for combining the ingredients used in making Spectra-Glaze facing. B&R also furnished technical manuals and extensive technical assistance to CGP when problems arose or technical advice was needed.[7] B&R also provided marketing

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[6]The parties also signed an advertising agreement. This agreement required B&R's licensees to contribute to the joint advertising of Spectra-Glaze blocks in Sweet's Catalogue, which is a multivolume directory of building materials used by architects. This agreement is not at issue in this litigation.

[7]For example, between Jan. 1, 1976, and June 1979, B&R's troubleshooter, Bruce Goodwin, flew from Baltimore to CGP's San Jose plant eight times and spent 51 days assisting CGP with technical problems. The total number of trips by B&R's employees to San Jose over the years was 111. These trips were all at B&R's expense. B&R

assistance and had an "Advisory Committee" to decide on how to advertise the Spectra-Glaze line. B&R provided CGP with sales and management support, including regular bulletins of market conditions and sales prospects, advertising material, sales aids, and sales training seminars. B&R commissioned independent laboratory tests to determine the quality of its product. With the exception of advertising, these services and others were provided to CGP at no charge.

From the outset, CGP's business was unsuccessful, in part because of the adverse effect of California building codes, business slumps, and strikes in the construction industry.[4] On March 7, 1978, CGP requested and was granted an extension of the trademark license. B&R attempted to help CGP by furnishing it new materials on consignment. Indeed, the defendant avers that the plaintiff remained in business only because the defendant was willing to act as

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conducted national marketing meetings for the licensees, set up booths at industry trade shows to advertise Spectra-Glaze, and had Spectra-Glaze facings tested by independent laboratories. B&R prepared special colors when architects requested them, and even refurbished the molds at CGP's plant.

[4]Within two years of plaintiff's formation in 1958, Rogers had exhausted all the capital raised to start the business. Tr. 248. As appears from plaintiff's income tax returns (Exs. CF-1-22), portions of which are summarized in Ex. EE, plaintiff's first 15 years of operation produced only three profitable years, and the total profit for those three years was only $9,356. From at least 1969 forward, plaintiff was insolvent. Tr. 459. Plaintiff's balance sheet of February 28, 1976, shows cash of $3,019, obligations of $366,969 and retained earnings of minus $374,595. From 1967 forward, plaintiff was indebted to defendant on a promissory note and on a book account. During the last four years, defendant furnished plaintiff with raw materials on consignment so that plaintiff would incur no liability to pay until the materials were actually used.

its banker. On May 31, 1979, CGP notified B&R that it would terminate its contract because of technical and sales difficulties. CGP went out of business in June 1979.

During the 20-plus years of the parties' relationship, CGP had never advised B&R that it did not want to buy from B&R, or that CGP wanted to buy from someone else, or that CGP wanted any change in the relationship. Instead, on March 7, 1978, when the 20-year term of the trademark license expired, CGP requested that the license be extended for two additional years with an evergreen provision for additional two year periods.

CGP brought a suit against B&R alleging that the agreements between CGP and B&R constituted an illegal tying arrangement. CGP's contention at trial was that B&R unlawfully tied the sale of its Spectra-Glaze trademark for glazed, masonry blocks to the sale of the materials required to make Spectra-Glaze facing. CGP alleged that B&R overcharged CGP for these materials.[9] B&R counterclaimed for money due on patent royalties, a promissory note, and an open book account.

CGP and B&R agreed that CGP owed $12,866.36 on the promissory note and $18,750 on the patent royalties claim, and the jury was instructed to return a verdict in these amounts on these claims. The jury found that $4,444.28 was

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[9]CGP contended that it would have operated profitably if it had not paid inflated prices for the materials used in making the Spectra-Glaze facing. The jury awarded damages to compensate CGP for these overcharges. CGP also sought damages for losses caused by its going out of business, but the district court ruled that these damages were too speculative for jury consideration. CGP cross-appealed and argued that this ruling was in error, but CGP has withdrawn this cross-appeal.

due on the open book account and awarded CGP $51,787.27 on its claim for overcharge damages. The court added interest of $4,745.93 to the amount of unpaid patent royalties. After trebling the damages and offsetting the amounts owed to B&R, the district court awarded $114,575.24 to CGP. The district court denied B&R's motion for judgment notwithstanding the verdict.

The defendant appeals on the ground that it is entitled to a judgment as a matter of law, and that there is no substantial evidence to support a reasonable jury's finding that there was an unlawful tying arrangement which caused damage to CGP. B&R contends also that if a tying arrangement existed, it was lawful and justifiable. Finally, B&R contends that there was insufficient evidence to support the award for damages. CGP argues that these issues involved factual determinations appropriate for jury resolution and that the jury properly found the existence of an illegal tie-in.

In deciding whether to reverse the district court's refusal to grant B&R's motion for judgment n.o.v., this court must determine whether the evidence when viewed most favorably to the party against whom the motion is directed cannot support a verdict in that party's favor. *See* Traver v. Meshriy, 627 F.2d 934, 939-40 (9th Cir. 1980); Quichocho v. Kelvinator Corp., 546 F.2d 812, 813 (9th Cir. 1976).

II.

Tying arrangements traditionally have been treated as per se illegal under Section 2 of the Sherman Act and Section 3 of the Clayton Act, 15 U.S.C. § 14 (1976). *See* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U. S. 495, 498-99, 89 S.Ct. 1252, ..., 22 L. Ed. 2d 495,

502-03 (1969) (Fortner I).[10] A tying arrangement exists when a seller conditions a buyer's purchase of a desired product (tying product) on the buyer's agreement to purchase another product (tied product). Northern Pac. Ry. v. United States, 556 U. S. 1, 5, 78 S. Ct. 514, ..., 2 L. Ed. 2d 545, 550 (1958). To prevail on a tying claim, a plaintiff must show that the scheme involves two separate products and conditions the purchase of the tying product on the purchase of the tied product; that the seller possesses sufficient economic power in the tying market to restrain competition in the tied product market; and that a "not insubstantial" amount of commerce is affected by the tie-in. *Fortner I*, 394 at 499, 89 S. Ct. 1252, ..., 22 L. Ed. 2d 495, 502 (1969). Hirsh v. Martindale-Hubbell, Inc., 674 F. 2d 1343, 1346-47 (9th Cir. 1982), *cert. denied*, ... U.S. ....., 103, S. Ct. 305, 74 L. Ed. 2d 784 (1982); Siegel v. Chicken Delight, Inc., 448 F. 2d 43 (9th Cir. 1971), *cert. denied*, 405 U. S. 955, 92 S. Ct. 1172, 31 L. Ed. 2d 232 (1972). This court has said that plaintiffs must show "some modicum of coercion" to establish a tie-in. Moore v. James H. Matthews & Co., 550 F. 2d 1207, 1216 (9th Cir. 1977).

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[10]The rationale for proscribing tie-ins is that they deny competitors free access to the tied product market, "not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market." *Fortner I*, 394 U. S. at 498-99, 82 S. Ct. at . . . 22 L. Ed. 2d at 502. Tie-ins also harm buyers by forcing them to forego their free choice between competing products. *Id.* at 499, 82 S. Ct. at . . . , 22 L. Ed. 2d at 502. Many commentators, however, have criticized the application of the per se illegal label to tie-ins, especially in the franchising context. *See* Baker, The Supreme Court and the Per Se Tying Rule: Cutting the Gordian Knot, 66 Vt. L. Rev. 1235 (1980); Note, A New Approach to the Legality of Franchising Tie-ins, 129 U. Pa. L. Rev. 1267 (1981); *cf.* R. Posner, Antitrust 612-18 (1974) (economic theory suggests that the traditional rationale against tie-ins is incorrect). *But see* L. Sullivan, Antitrust § 156 (1977).

III.

In a tie-in case the first issue to be determined is whether two separate products exist that are tied together. The two products allegedly tied in this case are the Spectra-Glaze trademark and the ingredients used to make Spectra-Glaze blocks. CGP contends that the jury properly determined that the Spectra-Glaze trademark was the tying product B&R used to force CGP to buy Spectra-Glaze Compound and other ingredients from B&R.[11] B&R argues that, as a matter of law, the Spectra-Glaze trademark was not a separate tying product from the ingredients and the finished masonry block which the trademark identifies.

This Court recently has considered the issue whether a trademark can be a separate tying product from the product it represents.[12] In Krehl v. Baskin-Robbins Ice

[11]CGP argues that the tying product in this case was not just the trademark, but the trademark and the patent. The district court disagreed and instructed the jury that the only possible tying product was the trademark. The district court properly determined that the patent was not the tying products. *"The patent agreement were separate from the trademark agreement," and in fact, B&R had a licensee that operated under the patent without the trademark.* The patent agreement required CGP to buy nothing; the trademark agreement required CGP to buy ingredients from the defendant. The trademark agreement could also be terminated on 60 days notice without affecting CGP's rights under the patent agreement. These facts support the district court's determination that the trademark, and not the patent, was the only possible tying product in this case.

[12]For a discussion of how other courts have treated the separability issue, *see* Zeidman, The Two Product Test in Franchising: If You Want to Get X, You Gotta Buy Y, 1980 Ariz. St. L. J. 433; Comment, The Single Product Issue in Recent Tying Litigation, 1980 Ariz. St. L. J. 871; Note, Antitrust Franchising—Principe v. McDonald's Corp.—Big Mac Attacks the Chicken Delight Rule, 7 J.Corp. L. 137 (1981); Note, Product Separability in Franchise Tying Arrangements: The Fourth Circuit's New Rule, 38 Wash. & Lee L. Rev. 1195 (1981).

Cream Co., 664 F. 2d 1348 (9th Cir. 1982), decided after the judgment was rendered in the district court in the instant case, we found that the determination "whether a trademark may appropriately be regarded as a separate product requires an inquiry into the relationship between the trademark and the products allegedly tied to its sale." *Id.* at 1353. The *Krehl* Court distinguished between two kinds of franchising systems, the business format system and the distribution system, to determine if a trademark is a separate, tying product. The distinction is used to determine whether a producer's offerings are in response to independently structured consumer demand or are molded merely to force purchasers to buy component parts that they do not necessarily want. *See* Klamath-Lake Pharmaceutical Association v. Klamath Medical Service Bureau, 701 F. 2d 1276, 1289 & fn. 14 (9th Cir. 1983).

The *Krehl* Court explained that a business format franchise system is usually created merely to conduct business under a common trade name:

> The franchise outlet itself is generally responsible for the production and preparation of the system's end product. The franchisor merely provides the trademark and, in some cases, supplies used in operating the franchised outlet and producing the system's products. Under such a system, there is generally only a remote connection between the trademark and the products the franchisee are compelled to purchase. This is true because consumers have no reason to associate with the trademark, those component goods used either in the operation of the franchised store or in the manufacture of the end product.

664 F. 2d at 1353. In the business format system, consumers seek only the general services of franchisees, and fran-

chisees can satisfy consumer demand by using "commonplace" items and applying the franchisor's general methods. In the business format context, the trademark is separate from the component goods because consumer demand can be satisfied with component goods not associated with the trademark.[13] *See Klamath-Lake Pharm.*, 701 F. 2d at 1289 n.14; *Krehl*, 664 F. 2d at 1353.

When a distribution system franchise is involved, however, the considerations change:

> Under the distribution type system, the franchised outlets serve merely as conduits through which the trademarked goods of the franchisor flow to the ulti-

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[13]The franchise arrangement in Siegel v. Chicken Delight, Inc., 448 F. 2d 43 (9th Cir. 1971), is an example of the business format system. In exchange for the use of its trademark, Chicken Delight required its franchisees to purchase a specified number of cookers and fryers and to purchase certain packaging supplies and mixes exclusively from Chicken Delight at above market prices. The Court examined this franchising system and determined that its purpose was not to distribute the trademarked goods of the franchisor, but to conduct a certain business under a common trademark or trade name. In these circumstances, the trademark simply reflects the goodwill and quality standards of the enterprise which it identifies. The quality standards and business system of Chicken Delight, rather than the source of the component products, resulted in the goodwill that attached to the Chicken Delight trademark. The *Chicken Delight* Court properly concluded that the remote connection between the trademark and the commonplace articles the franchisees were required to purchase warranted treating the trademark as a separate tying product. For discussions of *Chicken Delight*, see Baker, The Supreme Court and the Per Se Tying Rule: Cutting the Gordian Knot, 66 Va. L. Rev. 1235, 1253-56; Note, The Single Product Issue in Recent Tying Litigation, 1980 Ariz. St. L. J. 871, 888-908; Note, Antitrust-Franchising—Principe v. McDonald's Corp.—Big Mac Attacks The Chicken Delight Rule, 7 J. Corp. L. 137 (1981); Note, A New Approach to the Legality of Franchising Tie-Ins, 129 U. Pa. L. Rev. 1267, 1294, 1303-04 (1981).

> mate consumer. These goods are generally manufactured by the franchisor or, as in the present case, by its licensees according to detailed specifications. In this context, the trademark serves a different function. Instead of identifying a business format, the trademark in a distribution franchise system serves merely as a representation of the end product marketed by the system. . . . Because the prohibition of tying arrangements is designed to strike solely at the use of a dominant *desired* product to compel the purchase of a second undesired commodity. . . , the tie-in doctrine can have no application where the trademark serves only to identify the alleged tied product.

Krehl, 664 F. 2d at 1354 (footnotes and citations omitted). In a distributor franchise, consumers are drawn to the franchise because its trademark indicates the availability of the franchisor's quality component products, and consumers could not effectuate their market choices if a franchisor was unable to force the franchisee to buy component products from the franchisor.[14] *See Klamath-Lake Pharm.*, 701 F. 2d at 1290 n.14.

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[14] *Krehl* involved the franchising of Baskin-Robbins ice cream. Franchisees argued that Baskin-Robbins's policy of conditioning the grant of a franchise on the purchase of ice cream exclusively from Baskin-Robbins constituted an unlawful tying agreement between the Baskin-Robbins trademark and the ice cream. The Court found that Baskin-Robbins franchisees serve merely as conduits through which the trademarked goods flow to the consumer and classified the franchise system as a distribution-type system. In this context, the trademark represents the end product made up of quality Baskin-Robbins's ingredients rather than a particular business format, and the Court held that trademark and the product were intertwined in a way that precluded them from being treated as separate products. *See* Hish v. Martindale-Hubbell, Inc., 674 F. 2d 1343 (9 Cir. 1982); Hamro v. Shell Oil Co., 674 F. 2d 784 (9th Cir. 1982).

B&R contends that its arrangement with CGP is clearly a distribution franchise system and that its trademark indicates the presence of B&R's quality components in the end product of the franchising system. We agree. The evidence at trial showed that the "Spectra-Glaze" brand block trademark always identified a product made with Spectra-Glaze Compound and B&R's other ingredients, that these ingredients originated from B&R, and that consumers purchased these goods with the understanding that they were made with the B&R quality components. "Spectra-Glaze" brochures emphasized that Spectra-Glaze blocks were made of Spectra-Glaze components, and numerous major purchasers of Spectra-Glaze would not buy the product unless B&R certified that Spectra-Glaze brand ingredients were used in its formulation. Builders using Spectra-Glaze blocks depend on purchasing blocks that met the specifications and qualities for which B&R had tested Spectra-Glaze, and they were drawn to the franchisee's product because the Spectra-Glaze trademark indicates the availability of B&R's quality component products.

Other considerations support B&R's contention that its franchising arrangements are of the distribution type. B&R did not force CGP to buy component goods that were not essential to maintaining the quality of its end product. For example, franchisees could purchase concrete blocks from any available source. The only goods that CGP had to buy from B&R involved B&R's trade secrets and "were of a special design uniquely suited to the franchised business." *Krehl*, 664 F.2d at 1352. In addition, B&R never has sold the trademark separate from the final product and component products upon which it appears. These facts show that the function of the Spectra-Glaze trademark is to identify the presence of a glazed masonry block made

up of the specially-formulated, thoroughly tested, high quality component parts rather than to indicate a product manufactured in conformity to a franchisor's quality standards.

We conclude that the desirability of the trademark and the quality of B&R's components represented by the trademark are inextricably interrelated in the consumer's mind in a manner that precludes finding that the trademark is a separate item for tie-in purposes. B&R's franchising system is designed to distribute to consumers the high quality, glazed masonry block that users of this product have come to expect. The structure of B&R's franchising system does not indicate any attempt to exact tribute from CGP in an anticompetitive manner. The Spectra-Glaze trademark serves to show the source of the goods purchased, and the goodwill of the trademark attaches to the products made for or by B&R. Thus, we conclude that the nexus between the Spectra-Glaze trademark and the allegedly tied products is so close that they must be considered one product. *See* Hamro v. Shell Oil Co., 674 F. 2d 784, 788 (9th Cir. 1982).

We hold that the district court erred in not granting B&R's motion for judgment notwithstanding the verdict. Viewing the entire evidence in the light most favorable to CGP, we conclude that no tying arrangement exists because there was no showing that the Spectra-Glaze trademark and the various ingredients used to make Spectra-Glaze were separate products capable of being tied. We reverse the judgment in favor of CGP and remand the case to the district court to enter judgment in favor of B&R on the tying claim.[15]

[15]We deny CGP's request for attorney's fees for this appeal. Each party is ordered to bear its own costs.

Appendix B

In the United States District Court
For the Northern District of California

No. 80 1130 SAW

California Glazed Products, Co., Inc.,
a California corporation,
Plaintiff,

v.

The Burns and Russell Company
of Baltimore City, a Maryland corporation,
Defendant.

The Burns and Russell Company
of Baltimore City, a Maryland corporation,
Counterclaimant,

v.

California Glazed Products Co., Inc.,
a California corporation,
and Grant H. Rogers,
Counterclaim Defendants.

Filed July 21, 1983

JUDGMENT ON MANDATE

This Court having heretofore, on November 18, 1981, filed its judgment in this cause which among other things awarded plaintiff judgment against defendant in the amount of $155,361.81 plus reasonable attorney's fees and costs, and defendant having appealed to the United States Court of Appeals for the Ninth Circuit from that portion of the judgment making the said award against it, and the Court of Appeals by opinion filed June 22, 1983 having reversed this

Court's judgment in favor of plaintiff and having remanded the case to this Court with instructions to enter judgment in favor of defendant on plaintiff's claim, and the judgment of the Court of Appeals having been duly filed in this Court,

IT IS HEREBY ORDERED, ADJUGED (sic) AND DECREED that this Court's judgment filed herein on November 18, 1981, and entered in the civil docket on November 25, 1981, is hereby amended to read as follows:

1. Plaintiff California Glazed Products Co. shall take nothing on its complaint against defendant The Burns & Russell Company of Baltimore City, and plaintiff's complaint shall be and it is hereby DISMISSED WITH PREJUDICE.

2. Defendant and counterclaimant The Burns & Russell Company of Baltimore City shall have and recover from plaintiff and counterclaim defendant California Glazed Products Co. on its counterclaim the sum of $40,786.57 and such costs of suit as have heretofore been and may hereafter be awarded, all with interest as provided by law from November 25, 1981.

3. Defendant and counterclaimant having abandoned its counterclaim against counterclaim defendant Grant H. Rogers, defendant shall take nothing from Grant H. Rogers.

Approved as to form.

LAWRENCE ALIOTO

Lawrence Alioto
Attorney for Plaintiff

Dated: July 21, 1983

LLOYD F. MacMAHON
U.S. District Court Judge